

Investigation into the Pricing and Procurement of Default Service

D. T. E. 99-60

Comments of

Western Massachusetts Electric Company

I. INTRODUCTION

By Order dated June 21, 1999, the Department of Telecommunications and Energy ("Department") solicited comments regarding the pricing and procurement of default service. Western Massachusetts Electric Company ("WMECO" or the "Company") respectfully provides the following comments in response to that Order. In addition, WMECO plans on filing comments in the second round, as well as participating in any hearings that may be specified by the Department.

II. BACKGROUND

WMECO has been providing default service since March 1, 1998 to those customers eligible or required to take such service, as set forth by Section 1B of Chapter 164 of the General Laws, and as consistent with WMECO's restructuring plan filed on December 31, 1997 in D.T.E. 97-120. Default service for that period has been priced and procured since that time in the same manner as standard offer service. That is, until WMECO is able to procure standard offer supply through an approved competitive solicitation process, standard offer service and default service is provided from WMECO's generating resources. WMECO currently has over 30,000 default service customers out of its total of approximately 200,000 customers.

When an Order is issued in its restructuring case, WMECO intends to hold a competitive solicitation for its standard offer supply expeditiously. At that time, it will be necessary to

determine the means by which it will price and procure default service to the extent that it will be different than standard offer service.

III. OVERALL PLAN FOR PROCURING DEFAULT SERVICE

Once WMECO begins to competitively procure standard offer service, it is also appropriate to procure default service through a competitive solicitation. However, because Section 1B contemplates different criteria and applicability for default service from that for standard offer service, separate solicitations may be required for these two services. Thus, WMECO proposes a separate solicitation of default service after its restructuring order has been issued in D.T.E. 97-120.

The default service solicitation WMECO envisions will be for supply on generally the same terms and conditions as those for standard offer service except that the period of such supply arrangement will run for a six-month period. In this way, the rate for this service will be determined by the market price for electricity through competitive solicitation. The Company views this approach as satisfying Section 1B's requirement that the rate for default service not to exceed the average monthly market price for electricity because the price would also reflect the average price from the market solicitation for the six monthly periods of the arrangement. Therefore, no further comparison to the market price would be necessary. Further, because it provides for prices and supply to be determined for six-month periods, it also satisfies the Act's requirement for an option for default service to remain uniform for a six-month period.

A concern that WMECO has is that it is possible and perhaps likely that, since the solicitation periods for default service and standard offer service will be out of step with each other, the prices for each will be different. This difference may cause confusion or a source of complaint for some customers, especially if they have been required to take default service as a result of a change in address only, and not as a result of entering the competitive market. The Department should recognize this potential customer issue as it considers its rules for pricing and procuring default service. To the extent that this issue would raise unacceptable problems for consumers in the Department's view, and to the extent that the Department orders WMECO to price its standard offer at the full cost of supply in the future, an alternative approach would be for the continuation of supplying default service as part of standard offer service for perhaps a two-year period. Since WMECO's restructuring plan does not anticipate supplying a portion of standard offer service from its divested generation, this approach could be implemented. However,

adopting this approach for WMECO requires the Department to find that such competitive solicitation, regardless of how long a period it covers, satisfies Section 1B's requirement that default service not exceed the average monthly market price for electricity (which, as noted above, is within the Department's authority).

IV. RESPONSES TO THE DEPARTMENT'S SEVEN QUESTIONS

WMECO offers the following comments responding to the Department's seven questions raised in its June 21, 1999 Order:

Q1. Is it appropriate at this time to change the way default service is priced?

A1. As noted in WMECO's comments above, it is necessary for the Department to address the way default service is to be supplied in the future since WMECO must procure such service in the near future. The key question that will guide this procurement is a determination of how companies can satisfy Section 1B's requirements that default service procured through a competitive bidding process "shall not exceed the average monthly market price of electricity," and that all bids "shall include payment options with rates that remain uniform for periods of up to six months."

Q2. What should be the basis for the "average monthly market price of electricity?"

A2. By acquiring default service through a six-month solicitation as proposed by WMECO, the weighted average of all winning bids to meet the distribution company's requirements would establish the average market price for default service during the term of the contract. Since such solicitation was done in a competitive market, which presumably reflected the average monthly prices for electricity in the six months of the period, there would be no further need to review monthly prices and compare them to default service.

A further complicating factor is that there is no accurate source of forecasted monthly data that could be used to compare prices. ISO New England does not produce such forecasts, and thus, any comparison would be a post-hoc review requiring some type of reconciling mechanism. Finally, the ISO New England spot market only represents the

amount of energy and capacity that is so traded, and a significant portion of resources and loads are addressed through bilateral contracts or self scheduling. Therefore, reliance on the ISO New England spot prices would not be a full indicator of the market price for energy.

Q3. If the default service rate should reflect retail prices, how should the rate be determined?

A3. To acquire default service, suppliers should bid a fixed cents/kWh price for all seven markets where suppliers would be responsible for line losses to the customers' meters and paid on a billed retail sales basis. By requiring suppliers of default service to bid fixed prices for six-month periods, the weighted average price of all winning bidders for each six-month period can be used to establish the rate that would be uniform for the required period.

Since the monthly revenue requirements to match monthly payments to suppliers would not exactly match revenues collected due to multiple customer billing cycles, the default service cost adjustment mechanism listed in the current tariff would be employed to reconcile the excess or deficiency collected. By establishing a fixed rate to customers for a six-month billing cycle and soliciting default service from suppliers for a similar six-month period, the only over-or under-collection from this mismatch would occur at the beginning and the end of this six-month period.

Customer rates during the first twelve months when default service is acquired from this type of competitive bidding procedure would be set equal to the weighted average market price from the solicitations. Rates in subsequent years would include a Default Service Cost Adjustment Factor to reconcile the previous 12-month period, including uncollected prior period balances in the Default Adjustment account.

In order to price the service correctly and send the right signal to customers, default service pricing should include line losses to the customers' meters in the same manner

that customers would be charged if they were to procure energy from a competitive supplier.

Q4. Does the use of retail market data require that the cost of retail services to default customers be moved from the distribution component of customers' bills to the generation component of customers' bills? If so, how would that best be accomplished?

A4. No, it is not necessary to move the cost of default service from the distribution to the generation component of bills. By acquiring default service through a fixed price bid as proposed, Supplier Services would still remain a separate entity on the WMECO bill. The rate on the bill that would be listed under the heading Generation Charge - Default Service would be the rate as described above in response to question 3. This rate would be applied to the total energy value the customer consumed during that billing cycle. Distribution losses would continue to be collected through the distribution services portion of the bill. Acquiring default service through this fixed price bid should not require any changes to the current WMECO bill format.

Q5. How should the price be determined?

A5. The price of default service supply would be a fixed cents/kWh price for all seven markets where suppliers would be responsible for line losses to the customers' meters and paid on a billed retail sales basis.

Q6. How often should default service be competitively procured?

A6. Although the solicitation should ask for fixed prices over a six-month time frame, the solicitations should be done once annually, with bidders requested to provide separate bids for each of the two six-month periods. Any supplier would be eligible to provide a bid for either or both six-month periods, but would not be required to provide a bid for both. Establishing annual solicitations will offer suppliers the flexibility to observe the market and make informed decisions, but limit the administrative cost of conducting bids on a more frequent basis.

Q7. Are there examples from other states that would be useful to the Department in deciding how to determine the default service price?

A7. Default service pricing depends on each state's particular restructuring legislation language. For example, Connecticut makes no differentiation between standard offer service and default service. Customers not choosing a competitive supplier receive the same service.